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¶1. (U) Introduction: The purpose of this monthly newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

¶2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

t = tons,
t/d = tons per day,
c/l = cents per liter,
t/m = tons per month,
t/y = tons per year,
oz = troy ounces (31.1 grams),
cmg = centimeter grams,
mcf = million cubic feet,
tcf = trillion cubic feet,
R = SA currency (rand),
MW = megawatts,
kt = thousand tons,
bbl/d = barrels per day,
MW = megawatts,
PGM = platinum group metals.

HOT NEWS

New Mines Minister Appointed

¶3. (U) On May 22, President Thabo Mbeki announced the appointment of Buyelwa Sonjica as the new Minister of Minerals

and Energy. The minor cabinet reshuffle was necessitated by the death of Stella Sigcau, Minister of Public Works, and involved four women ministers, indicative of the government's gender equality policy. Both the incumbent minister and the deputy minister of Minerals and Energy were moved to new portfolios. The new minister is the third in eleven months and she succeeds Lindiwe Hendricks and Phumzile Mlambo-Ngcuka who was promoted to Deputy President last year. The new deputy minister for minerals and energy was not announced. The mining industry has held back on comments pending future meetings with the new minister, but did venture that they had previously had very positive and amicable dealings with Sonjica on matters relating to water matters. The new minister was sworn in later in the week.

Koeberg's Damaged Unit 1 Operational

¶4. (U) Unit One at the Koeberg nuclear power station in the Western Cape was successfully returned to service after being out of commission for some five months. The generator was damaged in December 2005, resulting in both the rotor and stator requiring repair. The stator was repaired at Koeberg, while a replacement rotor was obtained from the French utility EdF. Unit 1 reached full power at the end of May. Over the same period, Unit 2 was shut down as scheduled for refueling and maintenance, and will remain out of service until August. According to Eskom's Chief Executive, Thulani Gcabshe, a shortfall of up to 400 MW may be experienced in the Western Cape during this period (winter). Demand side management measures such as the issuing of five million Compact Fluorescent Lights (CFL's) to the Western Cape and the swapping out of two-plate electric stoves for two-plate gas stoves has begun to mitigate the potential for shortages. So far only minimal load shedding has been necessary.

Sasol Opens World-first Gas-to-Liquids Plant in Qatar
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¶5. (U) June 6, marked the official opening of Sasol's (South

Africa's synthetic fuels- and petrochemicals-from-coal producer) world-first gas-to-liquids (GTL) plant in Doha, Qatar. His Highness, Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar, officially inaugurated the $950 million Oryx GTL plant at Ras Laffan Industrial City. The ceremony was attended by dignitaries and guests from Qatar and abroad. Oryx GTL is a joint venture between state-owned Qatar Petroleum (51%) and Sasol (49%). The facility is the pacesetter of the petroleum industry's focus to create a global GTL industry that is geared to unlock the world's vast natural gas resources for conversion into ultra-low emission diesel and other environmentally benign energy products.

¶6. (U) The plant will be scaled up in the next few months to convert gas from the Gulf's North Field into 34,000 barrels per day (bpd) of liquid hydrocarbons. It will produce mainly environmentally-friendly, high-performance diesel, using proven Sasol technology. Oryx is the first low-temperature Fischer-Tropsch GTL facility outside South Africa that is dedicated to the production of new-generation GTL diesel. In partnership with Sasol-Chevron and Qatar Petroleum, the intention is to triple the existing capacity of the plant to some 100,000 bpd and finally to 130,000 bpd. This would bring Middle Eastern production to within 30,000 bpd of Sasol's Secunda plant, which produces 160,000 bpd of fuel from coal.

¶7. (U) Sasol CE Pat Davies said that the Oryx plant would pave the way for the development of a substantial environmentally acceptable GTL capacity in Qatar and other gas-rich regions, including Nigeria (a GTL plant will be in operation by 2009) and Australia. In markets such as Europe, the US, Japan and Australia, the statutory maximum permissible sulfur content in diesel is as low as 10 ppm. Sasol's GTL diesel, developed entirely in South Africa, has a sulfur content of less than 5 ppm. Sasol-Chevron is a London-based joint venture between Sasol and the Chevron Corporation, and will start to market the

GTL diesel in Europe later this year. Davies said that Sasol's GTL plants would put a new source of fuel onto the market and would add value to the energy resources of the supplying country, prior to exportation. In South Africa, Sasol provides 34% of the country's liquid-fuel, employs 170 000 people, adds $6-billion a year to the GDP and $4.5 billion a year in foreign-exchange savings.

PLATINUM GROUP

Impala Platinum to give 51 Million Ounces of Platinum Resources to Zimbabwe
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¶8. (U) On May 31, Zimplats Holdings, Zimbabwe's major platinum producer, reached an agreement with the Zimbabwean government to give (relinquish) 51 million ounces or 36% of its platinum resource base in exchange for what it described as empowerment credits and cash. This represented a compromise solution response to the GOZ proposed expropriation of 51% of all foreign-owned mines. Implats, the world's second largest platinum producer, owns 87% of Zimplats, which holds virtually all of the Hartley Complex hosting about 85% of the total platinum group resources in the Great Dyke. The Great Dyke is the world's second biggest resource of platinum group metals after South Africa's Bushveld Complex. Implats said that the land to be given up did not fall within its long-term mine plan, which is to expand production from Zimbabwe to 1 million platinum ounces per year over a fifty year life of mine.

¶9. (U) According to the latest Impala Annual Report the company's Zimbabwe resource contains 140.8 million ounces of platinum and has reserves of 14.1 million ounces. These are strategically important to Implats as they make up more than half of the company's attributable reserves and resources of platinum group metals. The market value of the released claims - estimated to host 99 million ounces of precious metals - is about $153 million and Zimplats expects to receive cash and empowerment credits to the full value of the claims. The company stated that the agreement would give the board the confidence to go ahead with a $258 million expansion to its operations in Zimbabwe. Ironically, while the deal was being signed at the mine site by President Mugabe, Impala offices in Harare were raided by government officials purportedly investigating currency exchange irregularities.

Rhodium Hits Highest Level Since 1991

¶10. (U) South Africa produces more than 80% of the world's newly

mined rhodium, one of the minor platinum group metals but an essential component in most auto-catalytic converters. The metal accounts for about 8% of platinum group metals mined in South Africa and, at present prices, contributes substantially to mine earnings. During the second half of May, free market prices hit a fifteen-year high of nearly $6,500 an ounce, but have since fallen back to about $5,500 an ounce - compared with silver at $12, palladium at $340, gold at $630 and platinum at $1,230 per ounce. Demand currently outstrips supply by about 58,000 ounces per year, and supply is constrained as rhodium is a by-product of platinum mining and production cannot easily be expanded. Prices for sister minor platinum group metals are also on the increase, with Ruthenium at about $180 an ounce from $40 at the start of 2004. Iridium is at about $400 an ounce, the highest since February 2002.

FERRO METALS

Russian Smoke and Mirrors with South African Manganese
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¶11. (U) The Russian entrepreneur, Victor Vekselberg, through his company Renova has acquired manganese mining concessions over two sites in South Africa's Kalahari Manganese Field (KMF) in the Northern Cape Province. South African manganese producers

believe that, together with these concessions and the acquisition of rights and production in the Ukraine and Gabon, Vekselberg may be attempting to corner the producer market in manganese ore and alloys. Another scenario is that Renova may be angling to consolidate and sell the SA concessions to local interests at a significant markup. Renova told Mineweb (a publishing organization) that it planned to produce about two million tons of manganese ore per year and to process this into 500,000 tons of alloys at a new plant to be located on the site of the Coega harbor, currently under construction in the Eastern Cape Province. This "target" may be difficult to achieve as it exceeds the current ore output by Assmang (a major SA producer), is comparable to the alloy output by Samancor, and the Renova concessions contain relatively low grade ore. Reports from adjacent mines indicate that Renova and its partners are not active on the sites.

¶12. (U) South Africa hosts more than 80% of the world's known reserves of manganese ore and is the biggest producer of manganese alloys. Ukrainian reserves of ore are estimated at 520,000 tons, or about 10% of global reserves, Gabon trails with 160,000 tons, followed by China, Brazil and Australia. South Africa and Gabon are the leading producers followed by the Ukraine. According to industry sources, Samancor is negotiating with the Renova group to buy their concessions (a market defense strategy). Samancor is the world's leading producer of manganese alloys and is 60% owned by BHP-Billiton (BHP-B) and 40% by Anglo American. Industry speculation of a deal between Vekselberg and BHP-B grew when Renova recently announcement that it had acquired a major exploration and mining license for manganese in Gabon - a potential market-cornering strategy. Manganese is a strategic metal used almost exclusively for purifying and hardening steel.

CLEAN COAL

Anglo American and Shell Form Clean Coal Energy Alliance
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¶13. (U) On May 25, Anglo American and Shell Gas & Power International (one of Shell's downstream businesses) announced the formation of an Alliance in the field of coal conversion to clean energy. The aim of the two companies is to maximize the benefits from the emerging field of clean coal energy by selectively taking equity positions in coal conversion projects. These projects would combine the extensive coal reserves and mining experience of Anglo American with Shell's leading-edge conversion technologies. The objective is to extract, gasify and then convert coal into chemicals, hydrogen, power, liquid hydrocarbons and other uses. Tony Trahar, Chief Executive of Anglo American, said that the ability of Anglo and Shell to form a clean coal energy alliance had the potential to develop multiple projects, which would give the Alliance a global sustainable competitive advantage.

¶14. (U) Anglo is currently investigating the potential for incorporating its Australian Monash Energy Project into the Alliance. This project is exploring technologies that produce liquid fuels from non-conventional sources, such as brown coal. The technologies chosen by Monash enable separation of a

concentrated stream of CO_2 that can be transported to injection wells in deep underground geological formations for safe and secure storage. Burning the synthesis gas generated by the gasification of coal emits significantly lower quantities of greenhouse gases and pollutants than traditional coal burning and is considered to be the cleanest way of harnessing the energy potential of coal, which is the world's dominant fuel source. The project initially envisages a coal mine, drying and gasification plant, carbon dioxide capture and storage and a gas-to-liquids (GTL) plant with associated power generation. (Comment: this process differs from Sasol's in that it gasifies a lower rank (brown) coal and also separates out a CO_2 stream for secure storage. End Comment.)

ELECTRICITY

Energy Spending Could put a Brake on Growth

¶15. (U) In recent testimony to Parliament, Eskom officials admitted that, in the light of greater than expected economic growth, the proposed spending on new generation capacity would be inadequate to meet expanded energy demand projections. This could be a drag on the economy and also meant that its electrification program might fail to meet targets. Brian Dames, a managing director at Eskom, said that the $13 billion capital expenditure plans were based on the expectation of a 4% economic growth rate. This rate was calculated to increase electricity demand by 2.3%. The South African government is now aiming for 6% economic growth which would mean an electricity demand growth rate of 4.4%. At the World Economic Forum (WEF) in Cape Town, Steve Lennon, Eskom's Managing Director for Resources and Strategy, said that South Africa's target of universal electrification by 2012 could only be met if Eskom spent an additional $1.4 billion on the program. From 1994 to 2004, more than 3 million homes have been electrified.

GOLD

Anglo American to Concentrate on non-Gold Mining
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¶16. (U) Further to an earlier announcement by Anglo American that it intended to concentrate on its core mining activities and sell off "non-core" assets, the company confirmed that it would also sell its remaining 42% stake in gold producer AngloGold Ashanti. The company would then concentrate its attention on its core mining interests, including platinum, base metals, iron ore, diamonds (through De Beers), coal, and industrial minerals. At Anglo's 2006 Annual General Meeting Tony Trahar (CEO) said that the reasoning behind the proposed disposal of AngloGold Ashanti was that gold contributed less than 3% to the company's total revenues and that gold assets tended to be followed by a distinct investor group compared with those that followed diversified mining companies. As a result, the value of the AngloGold Ashanti had not been fully reflected in Anglo's overall market capitalization.

Gold Theft at SA Mines

¶17. (U) South Africa's gold mining sector estimates that up to 5% or more of the total output from mines might have been stolen last year. Chamber of Mines executive director Frans Barker said that the theft of gold at mines was "quite a big issue". He singled out mines in the Free State Province as especially affected. Although between 1% and 2% of total gold output had been reported stolen in 2005, there was evidence that the figure was double that. According to information from an ongoing study commissioned by the Chamber of Mines - the first study of its kind since 1998 - industry losses amounted to around $310 million or 12% of total gold output for the year. Older mines with more entry points were seen as more vulnerable to theft.

DIAMONDS

De Beers Wins 25 Years for Botswana Diamond Mining
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¶18. (U) On May 23, after almost seventeen months, the world's biggest diamond producer, De Beers, and the Government of Botswana finally signed a suit of agreements to strengthen their partnership and renew De Beers' Jwaneng Diamond Mine lease for a further 25 years. Jwaneng is one of the richest diamond mines in the world. Permanent Secretary in the Ministry of Minerals, Energy and Water Resources, Dr. Akolang Tombale signed on behalf

of the GOB. The Jwaneng mine lease, which had expired in 2004, had to be renegotiated and renewed. At the conclusion of negotiations last year, the Orapa and Letlhakane mine leases

were revoked and lumped with that of Jwaneng. The new lease has given De Beers 25 years of uninterrupted mining and control of Botswana's entire diamond production. However, Tombale said that the broad nature of the lease meant that some details were still to be finalized.

¶19. (U) A mining consultant, Todd Majaye, said the Jwaneng lease agreement was linked to other issues such as the relocation of some of the De Beers London-based Diamond Trading Company (DTC) functions to Botswana. DTC is the marketing arm of the De Beers Group and is responsible for: aggregating and sorting rough diamonds from its global operations; diamond purchases; and evaluating, marketing and selling diamonds to their sight holders (a selected group of clients with the financial ability to market/promote diamonds). The most pressing issue, according to Majaye, was that of diamond beneficiation or adding value to rough diamonds before export. Under the new agreement only 10% of Botswana's diamond production of 32 million carats - valued at about $2.7 billion - will be cut and polished in the country. Majaye said that this was not sufficient and that the GOB should have more pronounced beneficiation plans.

LABOR

One-Day Strike Hits Mines Hard

¶20. (U) The mining industry was the most affected by the May 18 nationwide strike against poverty and unemployment that was called by the Congress of South African Trade Unions (Cosatu). Analysts said that although the effect of the strike on the overall economy was likely to be minimal it was would portray South Africa in a negative light to potential international investors. According to Absa Bank economist Monale Ratsoma, one of the inhibiting factors to foreign direct investment - needed to finance the current account deficit resulting from strong economic growth - was the country's restrictive labor laws, and the strength and political influence of the trade unions. Ratsoma estimated that the monetary loss caused by the strike was about $300 million. The Chamber of Mines spokeswoman said that some mines suffered up to 100% absenteeism due to the strike and that about half of all mineworkers took part in the protest action.
COFFMAN